

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The reporting entity "King County" consists of King County Government as the primary government; the Harborview Medical Center (HMC) and the Washington State Major League Baseball Stadium Public Facilities District (PFD) as "discretely presented" component units; and the Flood Control Zone Districts as "blended" component units. Most funds in this report pertain to the entity King County Government or component units. Certain Agency Funds, referred to as Agency Funds – Special Districts/Other Governments, pertain to the County's custodianship of assets belonging to independent governments and special districts. Under the County's Home Rule Charter, the King County Executive is the *ex officio* treasurer of all special districts of King County, but not of the cities and towns. Pursuant to County ordinance, the Manager of the Finance and Business Operations Division is responsible for the duties of the comptroller and treasurer. Monies received from or for the special districts are deposited in a central bank account. The Manager of the Finance and Business Operations Division invests or disburses money pursuant to the instructions of the respective special districts.

Component Units

The Harborview Medical Center (HMC), a 349-bed hospital with extensive ambulatory services, is located in Seattle, Washington. HMC is managed by the University of Washington (UW). The HMC Board of Trustees is appointed by the County Executive. The County Manager of the Finance and Business Operations Division is the treasurer of HMC. HMC staff members are employees of UW. The management contract between the HMC Board of Trustees and the UW Board of Regents recognizes the Trustees' desire to maintain HMC as a means of meeting the King County Government's obligation to provide the community with a resource for health services, and UW's desire that HMC be maintained as a continuing resource for education, training, and research. The general conditions of the management contract specify that King County retains title to all real and personal property acquired for King County with HMC capital or operating funds. The Trustees determine major institutional policies and retain control of programs and fiscal matters. The Trustees agree to secure UW's recommendations on any changes to the above. The Trustees are accountable to the public and King County Government for all financial aspects of HMC's operation and agree to maintain a fiscal policy that keeps the operating program and expenditures of HMC within the limits of operating income.

HMC is a component unit of the County for the following reasons: (1) it is a separate legal entity having its own corporate powers; (2) the County Executive appoints HMC's Board of Trustees, who may be removed only for statutorily defined causes and subject to legal appeal; and (3) although the County cannot impose its will on HMC, the unit creates a financial burden on the County because the County is responsible for the issuance and debt service of all general obligation bonds for HMC capital improvements. HMC's financial presentation is on the discrete component unit basis because the County and HMC's governing bodies are not substantively the same, and HMC does not provide services solely to King County. HMC financial data is as of their fiscal year-end, June 30, 2001, rather than December 31, 2001.

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Although the primary classification of HMC in this report is that of a component unit, the County is the issuer of HMC's general obligation bonds. Therefore, Note 10, "Long-term Debt," reports on all the general obligation bonds issued by the County as of December 31, 2001, including bonds reported by HMC as a component unit as of June 30, 2001.

HMC hires independent auditors other than the County's independent auditors and prepares its own audited financial statements. These statements may be obtained from the Finance Section of the Harborview Medical Center, 325 9th Ave., Seattle, Washington, 98104.

The Washington State Major League Baseball Stadium Public Facilities District (PFD) is the agency created by the Metropolitan King County Council on October 24, 1995, as authorized under *Revised Code of Washington (RCW)*, Chapter 36.100. The PFD operates as a municipal corporation of the State of Washington and was formed to site, design, build, and operate the major league baseball park. The PFD is governed by a seven-member board of directors, four of whom are appointed by the County Executive. The other three are appointed by the Governor of the State of Washington. The County, as the *ex officio* treasurer for the PFD, maintains several funds to account for construction, debt redemption, and special revenue collection. Construction was financed by a 1997 general obligation bond issue and contributions from the Baseball Club of Seattle. Debt service on the bonds is supported by sales and use taxes, sales and use tax credits, special lottery proceeds, special license plate sales, and admissions tax. The stadium was completed during 1999 and is an asset of the PFD.

The PFD is a component unit of the County for the following reasons: (1) it is a separate legal entity; (2) a majority of its board of directors (4 of 7) is appointed by the County Executive; and (3) there exists an indirect financial burden relationship between the PFD and the County since the County issued the bonds for the construction of the stadium, thereby making the County ultimately responsible for the debt. The PFD's financial statements are discretely presented because the two governing boards are not substantively the same and the PFD does not provide services solely to King County government.

The PFD reports on a fiscal year-end consistent with the King County primary government. It issues its own financial statements as audited by the State Auditor's Office. These statements may be obtained from the Public Facilities District, 110 South Atlantic Street, Seattle, Washington, 98134.

There are four Flood Control Zone Districts (FCZD) in King County that are administered by the Surface Water Management Division of the Department of Natural Resources. Only the Green River District is currently active. FCZD were created to manage surface water runoff within district boundaries. The King County Council members are *ex officio* members of the Board of Supervisors for each FCZD and the County Engineer serves as the FCZD engineer. An FCZD can assist in the construction and maintenance of dikes, drainage systems, dams and reservoirs as well as widening, straightening, and relocating water courses.

FCZD are a component unit of the County for the following reasons: (1) they are legally separate entities established as quasi-municipal corporations and independent taxing authorities; (2) King County, in effect, appoints the voting majority of the FCZD board because the County Council members are the *ex officio* supervisors of each FCZD; and, (3) the County

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can impose its will on FCZD. FCZD financial presentation is on a blended basis because the two governing boards are substantively the same. They are classified as Special Revenue funds and do not issue independently audited financial statements.

Joint Venture

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a non-profit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act of 1998. It functions as the Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected official (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to grantors for disallowed costs. If expenditure of funds is disallowed by a grantor agency, the WDC can recover the funds from (in order): 1) the agency creating the liability; 2) the insurance carrier; 3) future program years; and 4) as a final recourse, from King County and the City of Seattle, each being responsible for one-half of the disallowed amount. As of December 31, 2001, there are no outstanding program eligibility issues that might lead to a King County liability.

The WDC contracts with King County, which provides programs related to dislocated workers, welfare to work, and workforce centers. For the year 2001 WDC reimbursed King County approximately \$8 million in eligible program costs.

The WDC issues independent financial statements that may be obtained from the Workforce Development Council located at 2003 Western Avenue, Suite 250, Seattle, WA 98121-2162.

Related Organizations

The King County Library System (KCLS) and the Library Capital Facility District (LCFD) are legally separate entities, though both organizations are related to King County. The County Council appoints a majority of the board of the KCLS and selected Council members make up the 3-member board of the LCFD. There is, however, no evidence that the Council can influence the programs and activities of either organization or that either organization creates a financial benefit or burden to the County. For these reasons, the KCLS and LCFD are related organizations. The County serves as the treasurer for these special districts, providing services such as tax collection and warrant issuance. Due to this fiduciary relationship, these districts are routinely reported as agency funds of the County.

Fund Accounting

The accounts of the County are organized on the basis of funds, account groups, and component units, each considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for in, individual funds based upon the purposes for

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which they are to be spent and the means by which spending activities are controlled. In the financial statements of this report, the various funds are grouped into seven generic fund types and five broad fund categories as follows:

Governmental Funds

The governmental funds are accounted for under a spending measurement focus. Only current assets and current liabilities are generally reported on their balance sheets, and their operating statements present financial flow information of revenues and expenditures.

The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for revenues that are to be utilized for special and specific purposes, to account for the expenditures incurred for the performance of specific activities, or both.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds are used to account for all resources to be used for the acquisition or development of capital improvements (other than those financed by proprietary funds).

Proprietary Funds

Proprietary funds are accounted for under a cost-of-services or “capital maintenance” measurement focus. All assets and all liabilities, whether current or non-current, are reported on their balance sheets, and their operating statements present revenue and expense capital maintenance information.

Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County, or to other governments, on a cost-reimbursement basis.

In accordance with the Governmental Accounting Standards Board’s (GASB) *Codification of Governmental Accounting and Financial Reporting Standards (Codification)*, Section P80.104, the County has elected to follow all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, including the Financial Accounting Standards Board (FASB) Statement No. 71, *Accounting for the Effects of Certain Types of*

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Regulation, unless those pronouncements conflict with or contradict GASB pronouncements. The County has elected not to follow FASB pronouncements issued subsequent to that date.

Fiduciary Funds

Investment Trust Funds are used to report investment activity conducted by King County on behalf of legally separate entities such as special districts and public authorities that are not part of the County's reporting entity. The basis of accounting is full accrual and the measurement focus is economic resources.

Agency Funds are used to account for assets held by the County as an agent for other County funds, private organizations, individuals, and other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. There are two major classifications of Agency Funds: those used with the operations of County government, and those which account for cash received and disbursed in the County's capacity as *ex officio* treasurer or collection agent for special districts and other governments.

Account Groups

The General Fixed Assets Account Group and General Long-term Debt Account Group are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds. Fixed assets used in proprietary fund type operations are accounted for in the proprietary funds. Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds. Long-term liabilities to be paid from proprietary fund resources are accounted for in the proprietary funds.

Component Units

The component unit Flood Control Zone Districts (FCZD) are blended in the primary government financial statements in the Special Revenue Fund type.

The component units Harborview Medical Center (HMC) and Washington State Major League Baseball Stadium Public Facilities District (PFD) are included in the financial statements by the method known as "discrete presentation." Discrete presentation entails reporting financial data in columns separate from the financial data of the primary government.

Total Columns on Combined Statements

The total column "primary government" on the combined statements is captioned "Memo Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or cash flows in conformity with

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generally accepted accounting principles. Such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Bases of Accounting

King County uses the modified accrual basis of accounting for its Governmental and Agency fund types. They are the General, Special Revenue, Debt Service, Capital Projects, and Agency Funds. Revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Those revenues susceptible to accrual are intergovernmental revenues, fines and forfeits, payments for interfund services, building permits, and certain charges for services. Expenditures and other governmental fund financial resource transfers are recognized when the related fund liability is incurred, with the exception of interest on long-term debt, which is recognized when due.

King County uses the accrual basis of accounting for its Enterprise, Internal Service, and Investment Trust Funds. Expenses are recorded at the time liabilities are incurred and revenues are recorded when earned. Unbilled service receivables are recorded at year-end.

Terminology - General Revenues and General Governmental Expenditures

General revenues and general governmental expenditures used in this report are total revenues and expenditures for three governmental fund types: the General Fund, Special Revenue Funds, and the Debt Service Funds. The revenues and expenditures for all other fund types are excluded from these amounts.

Terminology - Expenditure Functions and Characters

The following is a description of each function reported by the County and a list of County operations whose expenditures are recorded under those functions:

General Government Services - A class of services provided by the legislative and administrative branches of the government entity for the benefit of the public or governmental body as a whole. This function includes the County Council, County Executive, Budget and Strategic Planning, Information and Administrative Services, Records and Elections, Human Resource Management, and Assessments.

Law, Safety and Justice - A class of services essential to the safety of the public including expenditures for law enforcement, detention and/or correction, judicial operations, protective inspections, emergency services, and juvenile services. This function includes the Sheriff's Office, Prosecuting Attorney, Superior Court, District Court, Public Defense, Judicial Administration, Adult and Juvenile Detention, and Emergency Medical Services.

Physical Environment - A class of services provided to achieve a satisfactory living environment for the community and the individual. This function includes Natural Resources, River Improvement, Animal Control, Surface Water Management, and River and Flood Control Construction.

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Transportation - A class of services provided by the governmental entity for the safe and adequate flow of vehicles and pedestrians that includes expenditures for road and street construction, maintenance, general administration, and transportation facilities and systems. This function includes County Road, Arterial Highway Development, Renton Maintenance Facilities Construction, and County Road Construction.

Economic Environment - A class of services provided for the development of, and improvement in, the welfare of the community and individual that includes expenditures for employment opportunity and development, veterans' services, childcare services, and aging and handicapped services. This function includes Veterans' Relief, Youth Employment Programs, Office of Aging, Women's Programs, Development and Environmental Services, and Planning and Community Development.

Mental and Physical Health - A class of services provided for the care, treatment and control of mental and physical illnesses that includes expenditures for hospitals, public health, inquests, community mental health, drug abuse, alcoholism treatment, and developmental disabilities. This function includes Medical Examiner, Developmental Disabilities, Mental Health, Alcohol and Substance Abuse Services, Public Health Pooling, and Cedar Hills Construction.

Culture and Recreation - A class of services provided to increase the individual's understanding and enjoyment including expenditures for education, libraries, community events, participant recreation, park facilities, and cultural and recreational facilities. This function includes Parks, Arts Commission, Cooperative Extension Service, and various Park Capital Project Funds.

Debt Service - A character of expenditure that accounts for the redemption of general long-term debt principal and interest and other debt service costs in the General, Special Revenue, Debt Service, and Capital Projects Funds and payments to escrow agents other than refunding bond proceeds.

Capital Outlay - A character of expenditure that accounts for expenditures related to capital projects and expenditures for fixed assets acquired by outright purchase and by capital lease financing agreements which will be capitalized in the General Fixed Asset Account Group.

Terminology - Deferred Charges

The Public Transportation and Water Quality enterprises defer expenditures for debt issuance, which are amortized over the life of the respective bond issues. In accordance with FASB Statement No. 71, the Water Quality Enterprise defers environmental remediation costs, which are amortized over 40 years. The Water Quality Enterprise is a regulated utility per FASB 71 because rates, which are designed to recover the cost of providing services, are set by the County Council per *RCW* 35.58.200(4) and *RCW* 36.56.010. Both the Water Quality and Public Transportation Enterprise defer refunding losses and bond discounts which are reported under Long-term liabilities.

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Terminology - Deferred Revenues

Deferred revenues include: (1) amounts collected before revenue recognition criteria are met, such as Deferred parks program revenue and building and land development permit fees; and (2) receivables that, under the modified accrual basis of accounting, are measurable but not yet available, such as Delinquent property taxes receivable, Abatements receivable, and Special assessments receivable.

Terminology - Combined Balance Sheet Account Groupings

Certain accounts are grouped on the combined balance sheet.

- The asset account *Other receivables, net* combines Abatements receivable; Assessments receivable current, delinquent, and deferred; Accrued interest/penalty receivable – delinquent assessments; Interest receivable; and Notes/contracts receivable.
- The asset account *Deferred charges* combines Deferred charges – environmental remediation costs and Deferred charges – other.
- The asset account *Other restricted assets – construction* combines Accounts receivable; Assessments receivable; Interest receivable; Due from other governments; Property held for future use; and Deferred financing costs, net.
- The fixed asset account *Furniture, machinery and equipment* combines Furniture, machinery and equipment; Rental equipment; Data processing equipment; and Telecommunications equipment.
- The contra account *Accumulated depreciation* combines Accumulated depreciation – Buildings, Accumulated depreciation – Improvements other than buildings, and Accumulated depreciation – Furniture, machinery and equipment.
- The liability *Accounts payable* includes Vouchers payable, Warrants payable, Due to other governments, Interest payable, Taxes payable, Retainage payable, and Arbitrage earnings payable.
- The liability *Custodial accounts* combines Custodial accounts and Due to special districts/other governments.
- The liability account *Other liabilities payable from restricted assets* combines Accounts payable, Estimated claims settlements, Due to other governments, Interest payable, Wages payable, Assessments payable, and Arbitrage earnings payable.
- The liability account *Other long-term liabilities* combines State revolving loan payable, Environmental and property remediation costs, Estimated claims settlements, Assessments payable, and Customer deposits.

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Receivables

In Current Assets, receivables reported net of estimated uncollectible amounts as of year-end are shown below at gross with the related estimated uncollectible accounts.

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
Receivables					
Accounts receivable	\$ 35,303,542	\$ 27,112,181	\$ 529,384	\$ 35,049,889	\$ 1,587,851
Estimated uncollectible accounts receivable	(30,374,267)	(2,635,367)	(32,984)	(258,286)	(14,717)
Accounts receivable, net	<u>\$ 4,929,275</u>	<u>\$ 24,476,814</u>	<u>\$ 496,400</u>	<u>\$ 34,791,603</u>	<u>\$ 1,573,134</u>
Abatements receivable	\$ -	\$ 316,442	\$ -	\$ -	\$ -
Estimated uncollectible abatements receivable	-	(212,016)	-	-	-
Other receivables	12,902,645	9,146,327	123,641	1,682,741	305
Other receivables, net	<u>\$ 12,902,645</u>	<u>\$ 9,250,753</u>	<u>\$ 123,641</u>	<u>\$ 1,682,741</u>	<u>\$ 305</u>
Due from other governments	\$ 25,366,891	\$ 40,059,035	\$ 7,047,351	\$ 38,184,906	\$ 496,827
Estimated uncollectible due from other governments	(280,858)	-	-	-	(13,551)
Due from other governments, net	<u>\$ 25,086,033</u>	<u>\$ 40,059,035</u>	<u>\$ 7,047,351</u>	<u>\$ 38,184,906</u>	<u>\$ 483,276</u>

Cash and Cash Equivalents

Cash and cash equivalents consists of the following accounts: Cash and pooled investments, Petty cash/change funds, Cash with escrow agent, and Cash held in trust. Investments held by the Water Quality Enterprise in the form of overnight U.S. Treasuries are also reported as Cash and cash equivalents.

Most county funds, special districts, and component units participate in an external investment pool maintained by the King County Treasury Operations Section. (See Note 3, "Deposits with Financial Institutions, Investment and Reverse Repurchase Agreements" — External Investment Pool.) The investment pool consists of internal and external portions. For investment pool participants, the pool functions essentially as a demand deposit account where participants receive an allocation of their proportionate share of pooled earnings. Each fund's equity share of the internal portion of the pool's net assets is reported on the balance sheet as Cash and cash equivalents and reflects the change in fair value of the corresponding investment securities. Included in the internal portion of the pool is the investment of short-term cash surpluses not otherwise invested by individual funds. The interest earnings related to this

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investment of short-term cash surpluses are allocated to the General Fund in accordance with legal requirements and are used in financing general County operations.

Investments

In addition to pooled investments described under Cash and Cash Equivalents, King County holds other investments in qualified public depositories for County government and special districts for which, either by Washington state law or by contract, King County is the custodian. Monies are invested as directed by the governing authority for the fund or agency and proceeds are returned to the investing fund.

Investments purchased for individual funds, regardless of length of maturity, are reported as Investments, except for certain Water Quality Enterprise overnight securities that are considered Cash and Cash Equivalents. Investments attributed to both the external portion of the investment pool and investments in individual investment accounts are classified as Investments in separate investment trust funds. Participant funds in the external portion of the investment pool report their equity share of the net assets in the pool as "Assets held in investment trust – pool." Special district funds with individual investment accounts report their portion of net assets as "Assets held in investment trust – individual accounts." Investments are reported at fair value in compliance with the GASB's *Codification*, Section 150.105, which provides for reporting investments of governmental entities using fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. (See Note 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements.")

Receivables

Amounts due from private individuals, organizations, or other governments are recorded at year-end. These amounts include charges for services rendered by the County or intergovernmental grants. All unbilled service receivables are recorded at year-end.

Receivables are reviewed at year-end to establish or update the provisions for estimated uncollectible receivables. These provisions are estimated based on an analysis of an aging of the year-end Accounts receivable balance and/or the historical rate of uncollectibility.

Taxes Receivable - Property taxes levied for the current year are recorded on the balance sheet as Taxes receivable and Deferred revenues at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, Taxes receivable and Deferred revenues are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues.

Abatements Receivable - In the Development and Environmental Services Fund, a Special Revenue Fund, the Abatements receivable account records the unpaid civil penalties and abatement costs due the County from liens filed by the Code Enforcement Section on property within the County. Deferred revenue is recorded for the abatements receivable and

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revenue is recognized when payment is made because liens may not be paid until the property is sold, which can be several years.

Assessments Receivable - In the governmental funds, unpaid assessments are reported in three accounts: Current, Delinquent and Deferred. Current assessments are those due within one year, Delinquent assessments are past due, and Deferred assessments are due beyond one year. Revenues from the assessments are recognized as they become current; that is, both measurable and available to finance expenditures of the current period.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "Due from other funds" or "Due to other funds" on the balance sheet. Short-term interfund loans are classified as "Interfund short-term loans receivable/payable." At year-end, all interfund receivables and payables and the associated revenues and expenditures/expenses are recorded. (See Note 11, "Interfund Account Balances.")

Intra-component Unit Receivables/Payables

For the Component Unit, Harborview Medical Center (HMC), restricted assets are segregated into the Construction Fund, Special Purpose Fund, and the board-designated Operating Fund and Plan Fund. Receivables/payables between restricted and unrestricted funds are not netted, but reported as Due to/Due from component unit.

Advances to Other Funds

Noncurrent portions of long-term interfund loan receivables are reported as Advances. In governmental funds they are offset equally by a fund balance reserve account that indicates they do not constitute expendable available financial resources and are not available for appropriation.

Inventories

Inventories of supplies are held by the following funds or divisions. The method of valuing each ending inventory is also noted:

Those funds with inventories using the first-in, first-out valuation method, approximated by using latest invoice, include: Solid Waste Operating, King County International Airport Operating, Construction and Facilities Management, Alcoholism Services, Public Health Pooling Fund, and the General Fund (Parks Division, Adult Detention and Department of Youth Services). The Motor Pool Equipment Rental, Public Works Equipment Rental, Transit Nonrevenue Vehicle Equipment Rental and Wastewater Equipment Rental funds use the moving average valuation method.

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The Water Quality Operating and Public Transportation Operating Funds use the average cost valuation method. The Public Works Equipment Rental Fund uses the average historical costs divided by the number of units purchased at various historical costs valuation method.

The last physical count of these inventories was as of December 2001, except for the inventories of the Public Transportation and Water Quality Operating Funds, which use cycle counting.

Governmental fund type inventories are accounted for under the purchase method in the General Fund and under the consumption method in the Special Revenue Funds. Under the purchase method, expenditures are recorded at the time the material and supplies are purchased. Under the consumption method, an inventory asset is recorded when the materials and supplies are purchased, and the expenditure is recognized as the inventories are used. Under both methods, inventories are offset by a fund balance reserve account in the financial statements.

Prepayments

Payments made to vendors for services that will benefit periods beyond December 31, 2001, (or June 30, 2001, for Harborview Medical Center), are recorded as prepaid items.

Restricted Assets and Related Liabilities

Restricted assets include operating reserves for landfill post-closure costs and reserves required by bond covenants. Restricted assets also include resources to be used for construction, and debt service and bond reserves required by bond covenants. The related liabilities are reported in the Liabilities payable from restricted assets section of the balance sheet.

For the Component Unit – Harborview Medical Center, restricted assets includes the assets of HMC's Construction Fund, Special Purpose Fund, and all board-designated assets in the Operating and Plant Funds.

Fixed Assets

Fixed assets include fee simple Land; Farmland development rights; Buildings; Improvements other than buildings; and Furniture, machinery and equipment. Furniture, machinery and equipment includes items with a cost greater than or equal to \$1,000 for the King County primary government and \$500 for the Component Units – Harborview Medical Center and the Washington State Major League Baseball Stadium Public Facilities District. The General Fixed Assets Account Group does not include capital expenditures for roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, playfields, or rights-of-way and easements, with the exception of farmland development rights purchased under the Farmland Preservation Program of King County. The County no longer reports Solid Waste Enterprise landfill closure and post-closure equipment and facilities costs as fixed assets. Instead, the liability for landfill post-closure care has been reduced to the extent of these costs.

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Fixed assets are valued at historical cost or estimated historical cost where actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Interest on interim financing during the construction period is capitalized. Expenditures for maintenance and repairs that do not add to the value of the assets or materially extend their lives are expensed as incurred. Expenditures for repairs and upgrades that materially add to the value or life of an asset are capitalized and, if in an Enterprise or Internal Service Fund, a new depreciation schedule is established.

General fixed assets are not depreciated. In the Enterprise and Internal Service Funds, provision is made for the depreciation of fixed assets over the estimated useful lives of the depreciable assets using the straight-line method. In the Water Quality and Public Transportation Enterprises, depreciation expense related to assets previously acquired through contribution from third parties is closed to the equity account, Contributions, rather than Retained Earnings.

Buildings, structures, and their components have been depreciated over their estimated useful lives in Enterprise and Internal Service Funds as presented below:

<u>DESCRIPTION</u>	<u>DEPRECIATION METHOD</u>	<u>ESTIMATED USEFUL LIFE</u>
Buildings - constructed	Straight-line	40 to 60 years
Buildings, transfer stations, shops, scale offices, etc.	Straight-line	10 to 30 years

Improvements other than buildings in the Enterprise and Internal Service Funds have been depreciated over their estimated useful lives of 10 to 50 years, using the straight-line method. In the Public Transportation Enterprise, the transit downtown tunnel is being depreciated over 50 years. Sewer lines in the Water Quality Enterprise are being depreciated over 50 years.

Furniture, machinery and equipment are given various lives of 3 to 20 years, depending upon their classification:

<u>DESCRIPTION</u>	<u>DEPRECIATION METHOD</u>	<u>ESTIMATED USEFUL LIFE</u>
Data processing equipment	Straight-line	3 to 10 years
Telecommunication equipment	Straight-line	6 to 10 years
Automobiles - cars, vans, etc.	Straight-line	5 years
Automobiles – trucks	Straight-line	6 to 8 years
Buses	Straight-line	12 years
Heavy equipment	Straight-line	7 to 15 years (depending on use)
Medical equipment	Straight-line	3 to 20 years
Shop equipment	Straight-line	5 to 10 years
Office equipment	Straight-line	3 to 10 years

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NOTE 1 – CONTINUED**Long-term Debt and Debt Service Funds**

During 2001 the servicing of long-term debt was accomplished through several funds as follows:

<u>DEBT</u>	<u>SERVICED BY</u>
1. General long-term debt	
(a) General obligation debt	
(i) Limited G. O. bonds	Limited G. O. Bond Redemption Fund
(ii) Unlimited G. O. bonds	Unlimited G. O. Bond Redemption Fund
(iii) Stadium G. O. bonds	Stadium G. O. Bond Redemption Fund
(iv) Capital leases	Various Governmental Funds
(b) Special assessment general LTD	RID Special Assessment Debt Redemption Fund
2. Proprietary type long-term debt	
(i) Limited G. O. bonds	Airport, Solid Waste, Water Quality, Public Transportation Enterprises and Construction and Facilities Management, and Information and Telecommunications Services Funds
(ii) Capital leases	Public Transportation Enterprise and Information and Telecommunications Services Funds
(iii) Revenue bonds	King County Water Quality Enterprise
(iv) State loans	King County Water Quality Enterprise

The specific bond issues composing each type of debt are further clarified in the schedule of long-term debt presented in Note 10, "Long-term Debt."

Bond Premium/Discount/Issuance Costs

In the Water Quality and Public Transportation Enterprises, bond premiums, discounts and issue costs are deferred and amortized over the life of the bonds. Other funds account for these costs as expenditures/expenses in the current period because they are not material.

Rebatable Arbitrage

Arbitrage occurs when the County invests funds borrowed at tax-exempt rates of interest in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government. The County recognizes this liability, Arbitrage earnings payable, by reducing investment interest revenue. At the end of 2001 arbitrage excess earnings liabilities were \$2,810,365 in Capital Project Funds; \$1,102 in the King County International Airport Enterprise; \$3,337 in the Stadium Enterprise; and \$46,922 in the Water Quality Enterprise.

Compensated Absences Payable

Eligible King County employees earn 12 days of sick leave and 10 to 30 days of vacation per year, depending on the employee's length of service and other factors. An unlimited amount of sick leave and a maximum of 60 days of vacation may be accrued. An employee leaving the employ of King County is entitled to be paid for unused vacation leave and, if retiring as a

**NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – CONTINUED

result of length of service or terminating by reason of death, for 35 percent of the value of unused sick leave. For reporting purposes, 35 percent of the sick leave liability of employees over 50 years of age or with 20 or more years of service with King County is subject to accrual. A liability is accrued for estimated excess compensation liabilities to the Washington State Department of Retirement Systems based on employee's accrued vacation and sick leave. An excess compensation liability is incurred when any employee whose retirement benefits are based in part on excess compensation receives a termination or severance payment defined by the State as excess compensation. This includes, but is not limited to, a cashout of unused annual leave in excess of 240 hours and a cashout of any other form of leave.

In the governmental funds (except for Youth Employment Programs), the Compensated absences payable would not normally be liquidated with expendable available financial resources. The full amount of the compensated absences liability is reported in the General Long-term Debt Account Group.

In the Youth Employment Programs Fund, the compensated absences liability (except for the excess compensation liability, which is recorded in the General Long-term Debt Account Group) is recognized in the period in which it is earned.

The proprietary funds follow the GASB's *Codification*, Section C60, and recognize a long-term liability for compensated absences in the accounting period in which it is earned.

Fund Equity

Contributed capital is recorded in proprietary funds that in previous years have received capital grants or contributions from customers, other governments, or other funds. Reserves represent those portions of fund equity not appropriable for expenditure or that are legally segregated for specific future use. Designated fund balances represent tentative plans for future use of financial resources. For a complete description of all reserves and designations, see Note 12, "Reserves, Designations, and Changes in Equity."

Changes in Accounting Policies and Principles

Effective January 1, 2001, King County has implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement defines nonexchange transactions involving financial or capital resources, and addresses the timing of recognition of revenue resulting in these transactions. In accordance with the statement, the affected funds, Proprietary Funds and Component Units, have recognized nonexchange transactions, including receipt of capital grant and other capital contributions, as nonoperating revenue or expense.

Component Units – Summary of Significant Accounting Policies**Harborview Medical Center (HMC)**

Harborview Medical Center maintains its own distinct set of accounting records. It is required to maintain its financial records on a fund accounting basis in conformity with restrictions or

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**NOTE 1 – CONTINUED**

designations imposed by the State municipal corporation laws, King County ordinances, donors, and the Board of Trustees.

HMC's accounts are organized into general and restricted funds. General funds include the Operating Fund and Plant Fund; restricted funds include the Construction Fund and the Special Purpose Funds.

- Operating Fund - accounts for the operating assets and liabilities and those operating revenues and expenses that are not funded by restricted sources.
- Plant Fund - accounts for funds designated by the Board of Trustees for buildings, renovations, and equipment purchases.
- Construction Fund - consists of monies from the 1977 General Obligation Bonds, the 1988 General Obligation Bonds, the 1993 General Obligation Bonds, the 1998 Revenue Bonds, the 1999 General Obligation Bonds, and the 2000 General Obligation Bonds, which are restricted for capital construction purposes.
- Special Purpose Fund - accounts for restricted donations, gifts and bequests received from outside sources for specific purposes.

The Component Unit – Harborview Medical Center balance sheet reflects HMC's financial position at June 30, 2001, as measured by assets, liabilities and equity of all funds (general and restricted). The statement of revenues, expenses, and changes in fund equity reports the results of operations for all funds, general and restricted. Activity in the restricted funds is reported as non-operating revenues or expenditures. Equity in the restricted funds is classified as reserved retained earnings. The cash flow statement is presented for all funds.

HMC's fixed assets are stated at cost. Improvements and replacements of buildings and equipment are capitalized; maintenance and repairs are expensed. Depreciation is taken on buildings, improvements, and equipment using the straight-line method. Upon disposal, fixed assets and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recorded.

HMC, as an instrumentality of the State of Washington, is not subject to Federal income taxes under Section 115 of the Internal Revenue Code unless unrelated business income is generated during the year.

Washington State Major League Baseball Stadium Public Facilities District (PFD)

The PFD uses the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred and revenues are recorded when earned.

Cash and cash equivalents consists of cash and pooled investments managed by the King County Treasury Operations Section. The King County Treasury Operations Section Manager pools and invests all short-term cash surpluses not otherwise invested by individual funds of the County. Earnings from these pooled investments are allocated to the PFD based upon its share of equity in the pool.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 1 – CONTINUED

Fixed assets include the Baseball Stadium and Furniture, Machinery and Equipment. The Baseball Stadium includes all costs associated with the development and construction of the ballpark project. Development costs include District staffing and related operating costs, architect and engineering fees, environmental consulting fees, and all other costs related to the development of the ballpark project.

Fixed assets are valued at historical cost. Only interest on interim financing during pre-construction and construction is capitalized.

Fixed assets are depreciated on a straight-line basis based on their estimated useful lives. Furniture and equipment are depreciated over three or five years. The Baseball Stadium is depreciated over 40 years from the date it was placed in service.

District employees earn 12 days of sick leave and 10 to 15 days of vacation per year, depending on the employee's length of service. An unlimited amount of sick leave may be accrued and two times the annual vacation allotment may be accrued. An employee leaving the employ of the PFD is entitled to be paid for all unused vacation. Unused sick leave is forfeited upon termination of employment. The accrual for unused vacation is included in wages payable in the accompanying balance sheet.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Budgeting Procedures**

On or before October 17 of each year, the County Executive presents the proposed budget for the following calendar year to the County Council for review. The budget includes all funds, revenues and reserves; is divided into programs, projects and objects of expense; and includes all supporting data deemed advisable by the County Executive or required by ordinance. The budget indicates for each program, project or object of expense: the actual expenditures of the preceding year; the appropriations for the current year and proposed appropriations for the next year; and includes the proposed capital improvement program for the next six years. The expenditures included in the budget for the ensuing year may not exceed the estimated revenues. The County Council holds public hearings and may add to, subtract from, or change appropriations for, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the Executive, or the revenue estimates must be changed by an affirmative vote of nine members of the County Council. The Executive has total veto and item veto power over appropriation ordinances approved by the County Council. Within 30 days after an appropriation ordinance has been vetoed or partially vetoed, the County Council may override the veto or partial veto by enacting the appropriation ordinance with a minimum of nine affirmative votes. The appropriation ordinance establishes the budgeted level of authorized expenditures that may not be legally exceeded without County Council approval of supplemental appropriation ordinances. Supplemental appropriation ordinances are reviewed by the Office of Budget and Strategic Planning and submitted to the County Executive. If approved for further consideration, they are transmitted to the County Council for its review and approval. If approved, they are implemented by the Office of Budget and Strategic Planning through